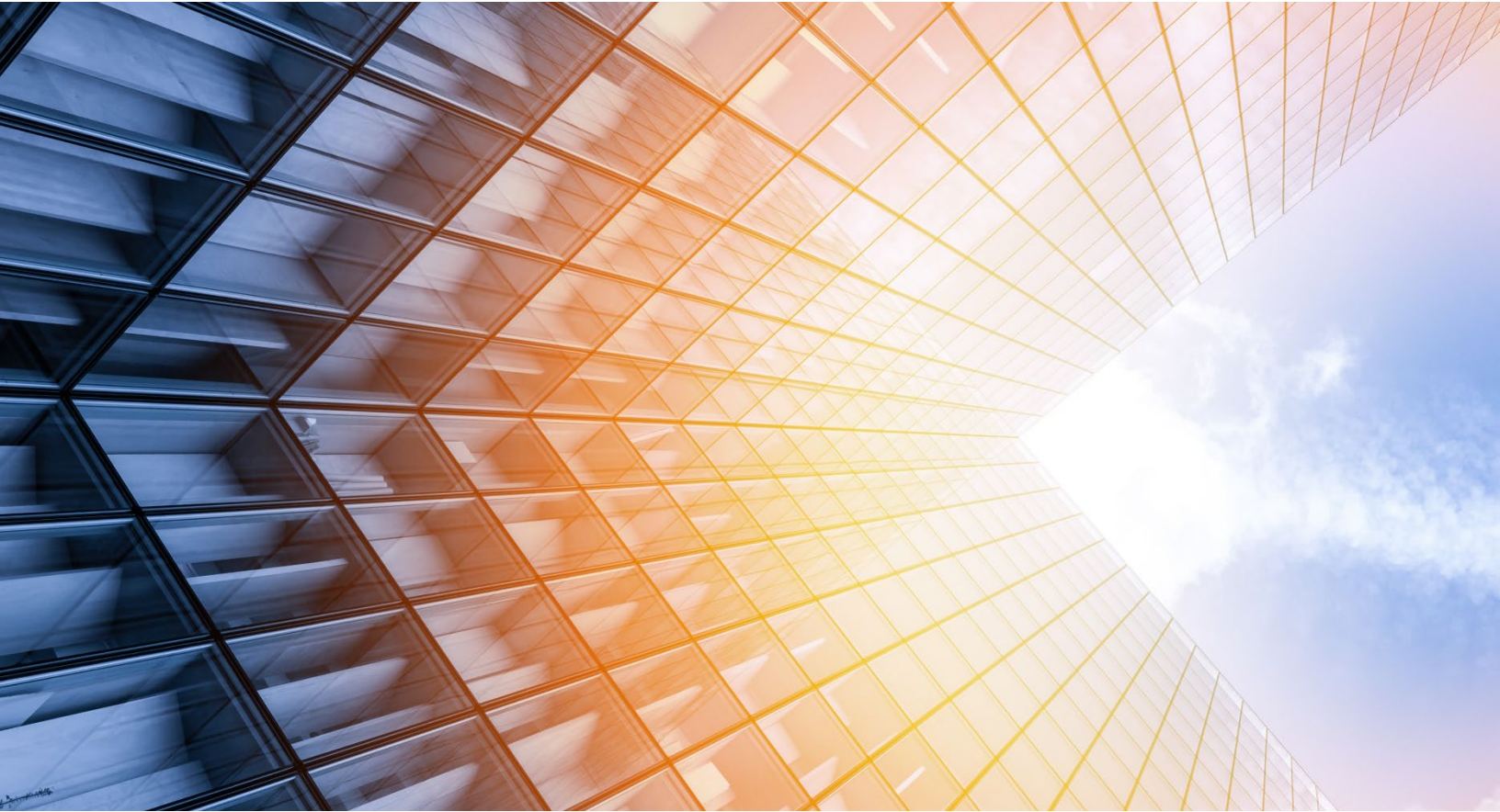




Q4 | 2023



The REIT Cap Rate Perspective

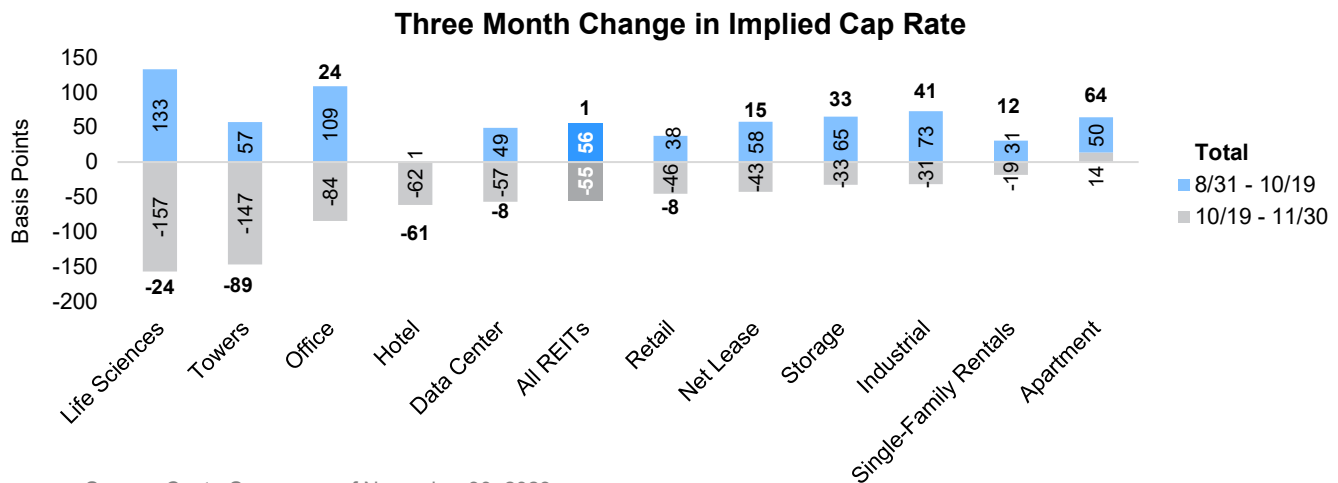
REITs on the Rise

CenterSquare's REIT Cap Rate Perspective seeks to quantify the valuation gap between public and private markets, offering investors insights as to the possible future direction of real estate values through our proprietary REIT implied cap rate results across sectors.

REITs on the Rise

Last quarter, we had posed the question: “does this mark the bottom of REIT pricing?” The fourth quarter hinted at the answer. Favorable data on inflation (receding) and the labor market (cooling) combined with less hawkish commentary from members of the FOMC gave investors the signal they had been waiting for – the Fed seems to finally be done raising interest rates. The 10-year treasury yield, which reached 5% in mid-October, fell to 4.2% by the end of November; we had been waiting for this market signal as a catalyst for REITs for several months. In May, we published [research](#) about our expectations for REITs to outperform after the end of the Fed's rate hiking cycle. While the Fed last raised policy rates over the summer, the possibility of another increase in interest rates continued to loom over the markets, but those clouds seem to now be clearing.

As a function, we have seen a rally across the market and, in alignment with our prediction, REITs have outperformed the broader equity market by 856bps¹ since the 10-year treasury yield peaked. While REIT pricing remained flat over the last three months, it's important to dissect that over two time periods – the change in pricing heading into peak 10-year yields on October 19, and the change in pricing after peak 10-year yields. While implied cap rates have remained relatively flat for the last three months, there were equal and opposite reactions over those two time periods. Additionally, as always, there was a wide dispersion of pricing movement across different sectors.



Source: CenterSquare, as of November 30, 2023.

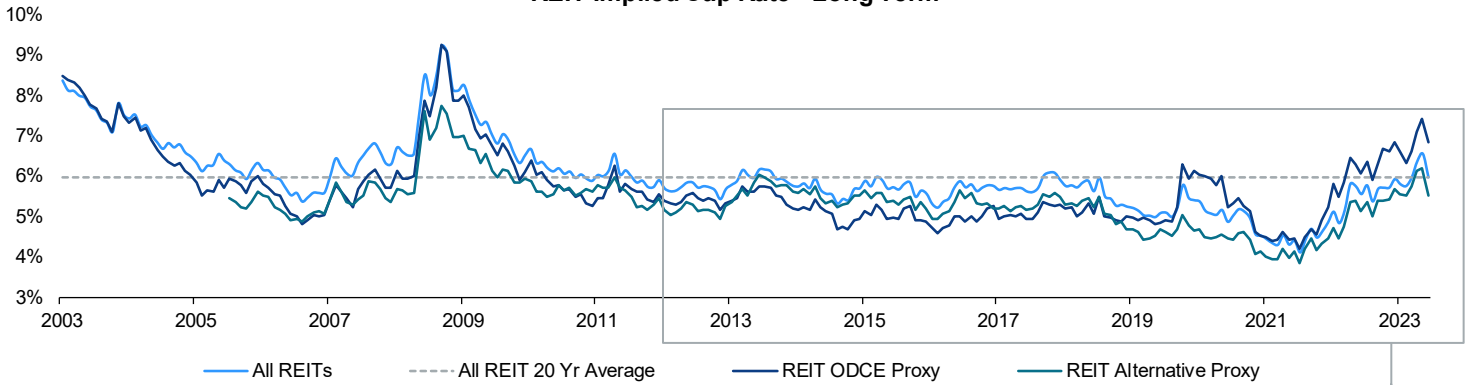
Some of the strongest positive momentum in the latest rally appeared in sectors that had seemed oversold, such as life sciences. While the sector saw cap rates compress 157bps in the last few weeks, the public market continues to discount the sector due to fears of oversupply on the horizon. Elsewhere, a sector like towers, which has historically traded at one of the lowest cap rates across the REIT space, had reacted to rising rates and the necessary repricing as a function. Unsurprisingly, the sector mirrored that reaction and retraced some of its underperformance; cap rates compressed 147bps since peak 10-year rates and have compressed 89bps in the last three months.

Volatility remains a constant across markets; however, if the Fed is indeed at the end of its rate hiking cycle, as we anticipate they are, we believe REITs should continue the recent rally from deeply discounted valuations with dispersion across sectors as the market prices unique fundamentals impacting the underlying property types.

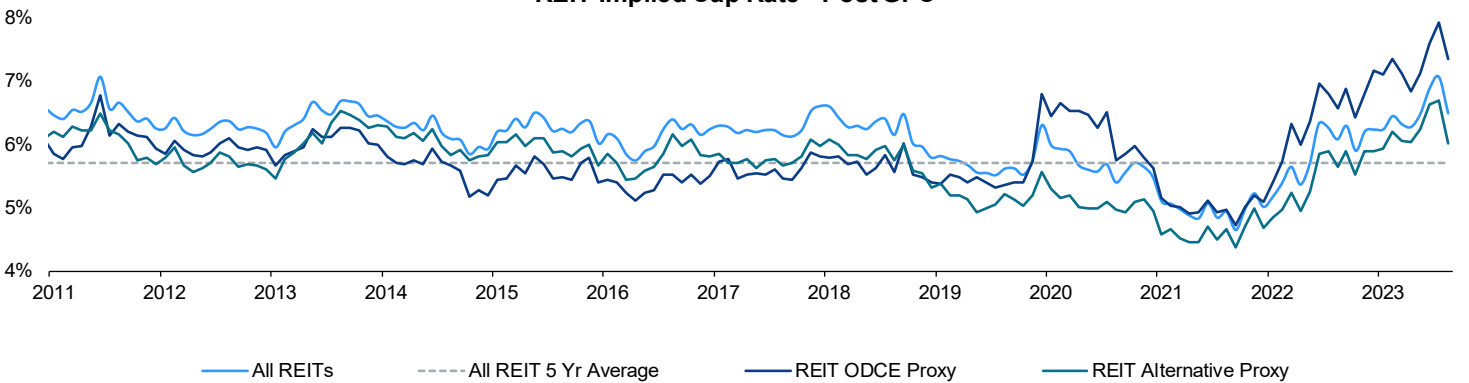
¹ REIT market = FNER Index, equities = S&P 500 Index, total returns from 10/19/2023 – 11/30/2023. See important disclosures at the end of this presentation.

The Data

REIT Implied Cap Rate - Long Term



REIT Implied Cap Rate - Post GFC



Sector	REIT Implied Cap Rate	3 Mo. Change (bps)	12 Mo. Change (bps)	5 Yr Avg Implied Cap Rate	Private Market Cap Rate	REIT vs. Private Market Valuation Gap
Apartment	6.52%	64	108	4.88%	5.22%	(20.0%)
Industrial	4.43%	41	43	3.86%	4.21%	(4.9%)
Office	8.59%	24	119	6.48%	6.61%	(23.0%)
Retail	7.25%	(8)	45	6.77%	7.01%	(3.2%)
Hotel	7.30%	(61)	40	6.59%	5.94%	(18.6%)
REIT ODCE Proxy	6.86%	22	78	5.50%	5.77%	(15.8%)
Life Sci	7.14%	(24)	167	4.92%	5.20%	(27.1%)
Healthcare	7.44%	14	101	6.15%	6.45%	(13.4%)
Single Family Rentals	5.31%	12	14	4.66%	4.68%	(11.7%)
Manufactured Housing / RVs	4.68%	(15)	12	3.91%	4.78%	2.2%
Towers	4.71%	(89)	19	4.24%	4.58%	(2.8%)
Data Centers	4.69%	(8)	(47)	4.90%	5.47%	16.7%
Self Storage	6.14%	33	72	5.98%	5.29%	(13.9%)
REIT Alternative Proxy	5.53%	(23)	38	4.77%	5.26%	(4.8%)
All REITs	6.00%	1	41	5.96%	5.46%	(9.0%)

Source: CenterSquare Investment Management, REIT Company reports. "All REITs" refers to CenterSquare's U.S. REIT coverage universe (defined on page 4). Data presented above is based on financials reported by companies within CenterSquare's REIT coverage universe during September 2023. All periods presented are ending November 2023 (i.e. 3 month change represents the change from financials reported in August 2023 to November 2023). REIT Implied cap rates are generated by a proprietary calculation that divides a company's reported net operating income ("NOI") adjusted for non-recurring items by the value of its equity and debt less the value of non-income producing assets. See full disclosures on page 4 for more information on calculation methodologies and stock universe used. See important disclosures at the end of this presentation.

CenterSquare REIT Cap Rate Perspective Methodology

CenterSquare REIT Implied Cap Rates are based on a proprietary calculation that divides a company's reporting net operating income ("NOI") adjusted for non-recurring items by the value of its equity and debt less the value of non-income producing assets. The figures above are based on Q4 2023 earnings reported in September 2023.

The universe of stocks used to aggregate the data presented is based on CenterSquare's coverage universe of approximately 200 U.S. listed real estate companies. Sector cap rates are market cap weighted. Sectors and market classifications are defined by the following:

Apartment: REITs that own and manage multifamily residential rental properties; Industrial: REITs that own and manage industrial facilities (i.e. warehouses, distribution centers); Office – REITs that own and manage commercial office properties; Retail – REITs that own and manage retail properties (i.e. malls, shopping centers); Hotel – REITs that own and manage lodging properties; Healthcare – REITs that own properties used by healthcare service tenants (i.e. hospitals, medical office buildings); Gateway – REITs with portfolios primarily in the Boston, Chicago, LA, NYC, SF, and DC markets; Non-Gateway – REITs without a presence in the gateway markets.

The REIT ODCE Proxy is a universe of REIT stocks built to resemble the NCREIF Fund Index – Open End Diversified Core Equity (ODCE). The ODCE, short for NCREIF Fund Index - Open End Diversified Core Equity, is the first of the NCREIF Fund Database products and is an index of investment returns reporting on both a historical and current basis the results of 36 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The REIT ODCE Proxy is proprietary to CenterSquare and uses gateway/infill names in apartments, retail, industrial and office, and then weights them according to the ODCE index to create a proxy.

Private Market Cap Rates represent the cap rate achievable in the private market for the property portfolio owned by each company, and are based on estimates produced by CenterSquare's investment team informed by various market sources including broker estimates.

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interest rates and credit quality requirements will also affect the cash flow of real estate companies and their ability to meet capital needs.

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Definition of Indices

FTSE Nareit All Equity REITs Index "FNER"

The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

This benchmark is a broad-based index which is used for illustrative purposes only. The investment activities and performance of an actual portfolio may be considerably more volatile than these indices and may have material differences from the performance of any of this index.

A direct investment in an index is not possible.

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For a copy of CenterSquare's full REIT Cap Rate Perspective report, or to learn more about our strategies, please contact:

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